

Message Text

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ACTION EUR-12

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SUBJECT: EC COMMISSION COMMENTS ON RAMBOUILLET ARRANGEMENTS TO
SMOOTH OUT EXCHANGE RATES

REFS: A. EC BRUSSELS 10653, NOV 28, 1975

B. EC BRUSSELS 01368, FEB. 18, 1975

1. SUMMARY: EC COMMISSION OFFICIALS BELIEVE THE FRB
SHOULD TAKE A MORE ACTIVE ROLE IN SMOOTHING OUT EXCHANGE
RATE FLUCTUATIONS. THERE MUST ALSO BE CLOSER EC-US
COORDINATION OF ECONOMIC POLICIES BEFORE MAJOR PROGRESS
CAN BE MADE IN STABILIZING EXCHANGE MARKETS. THE COMMISSION
IS CONSIDERING PROPOSING REGULAR EC-US CONSULTATIONS ON
FINANCIAL MATTERS, ESPECIALLY THE COORDINATION OF INTEREST
RATE POLICIES. END SUMMARY.

2. EC COMMISSION OFFICIALS REMAIN SKEPTICAL THAT THE US-
FRENCH PROPOSALS AT RAMBOUILLET TO COORDINATE MARKET
INTERVENTIONS WILL EFFECTIVELY SMOOTH OUT ERRATIC EXCHANGE
RATE MOVEMENTS. THEY ARE WAITING TO SEE IF THE
FEDERAL RESERVE BOARD BEGINS TO TAKE A MORE ACTIVE ROLE

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IN MARKET INTERVENTIONS BEFORE JUDGING THEIR IMPACT

OF THESE PROPOSALS. THESE OFFICIALS NOTE THAT
FRB INTERVENTION HAS SO FAR BEEN ONLY SPORADIC.

AS A RESULT, AFTER EUROPEAN EXCHANGE MARKDETS HAVE CLOSED
FOR THE DAY, EXCHANGE RATE MOVEMENTS HAVE ON OCCASION
CONTINUED TO FLUCTUATE AND AT TIMES HAVE GONE BEYOND THE
ONE PERCENT DAILY LIMIT (SEE REF B), BECAUSE THE FRB
HAS NOT INTERVENED TO HELP STABILIZE RATES. AS A
RESULT , EUROPEAN BANKS ON THE FOLLOWING DAY HAVE HAD
TO INTERVENE TO BRING RATES BACK WITHIN THE AGREED-
UPON MARGIN. THIS HAS TENDED TO ADD TO THEIR
INTERVENTION COSTS.

3. COMMISSION OFFICIALS NOW LOOK TOWARD EC-US
ARRANGEMENTS TO MAINTAIN ORDERLY EXCHANGE MARKETS.
THEY PROPOSE TO BEGIN BY KEEPING DAILY FLUCTUATIONS WITHIN
ONE PERCENT. THEY ALSO PROPOSE MAKING THE SMOOTHING OUT
ARRANGEMENTS MORE STRINGENT BY NOT ALLOWING PARTICIPATING
CENTRAL BANKS TO OPT OUT UNLESS THERE IS GENERAL
AGREEMENT THAT A BANK MAY DO SO.

4. COMMISSION OFFICIALS ADD THAT COOPERATION IN
INTERVENTION POLICY WILL ONLY marginally HELP
STABILIZE EXCHANGE RATES. TO MAKE REAL PROGRESS,
THERE MUST BE COOPERATION ON GENERAL ECONOMIC POLICIES,
PARTICULARLY REGARDING INTEREST RATES, MONEY SUPPLY,
CREDIT EXPANSION AND FINANCING OF BUDGET DEFICITS.
TWO WORKING GROUPS OF THE EC CENTRAL BANK GOVERNORS
COMMITTEE HAVE BEEN STUDYING THE HARMONIZATION OF
MONETARY POLICY WITHIN THE EC. THESE GROUPS HAVE
DISCUSSED EC MONETARY POLICY OBJECTIVES AND
HAVE DEVELOPED INTERMEDIATE TARGET VARIABLES THAT
MEMBER STATES MIGHT CONSIDER AS A MEANS TO REACH THESE
COMMON OBJECTIVES. THE GOVERNORS ARE SCHEDULED TO
TAKE UP THE WORKING GROUPS' PROPOSALS WITHIN THE
NEXT SEVERAL MONTHS. COMMISSION OFFICIALS BELIEVE THAT
THESE PRELIMINARY EFFORTS TOWARD EC MONETARY COORDINATION
COULD OFFER POSSIBLE GUIDELINES FOR US-EC POLICY
COORDINATION.

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5. COMMISSION OFFICIALS ARE CONSIDERING PROPOSING TO
THE EC FINANCE COUNCIL THAT THE EC REGULARLY EXCHANGE
VIEWS WITH US AUTHORITIES ON ECONOMIC POLICY,
ESPECIALLY ON INTEREST RATE POLICIES. THESE OFFICIALS
ARE EXPLORING THE POSSIBILITY OF COUNCIL ENDORSEMENT OF
MEETINGS WITH US AUTHORITIES ALONG THE LINES OF THE
CONSULTATIONS WHICH THE PRESIDENT OF THE FINANCE
COUNCIL AND COMMISSIONER HAFERKAMP HAD WITH US

AUTHORITIES IN WASHINGTON LAST APRIL.
GREENWALD

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